

Message Text

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ORIGIN OPIC-06

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DRAFTED BY OPIC/F BMHENDERSON

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FM SECSTATE WASHDC

TO AMEMBASSY GABORONE

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E.O. 11652: N/A

TAGS: EFIN

SUBJECT: SUA PAN SODA ASH PROJECT

FOR AMBASSADOR FROM OPIC

1. GOOD NEWS; GULF RESOURCES HAS DECIDED TO PROCEED WITH AN INVESTMENT IN THE SUA PAN SODA ASH PROJECT. DECISION WAS MADE NOVEMBER 5. GULF IS INFORMING GAOLATHE BY CABLE. THE NEXT STEP WILL BE APPLICATION BY GULF FOR PROSPECTING LICENSE WHICH WILL GIVE THEM EXCLUSIVE RIGHTS TO DEVELOP A PROJECT IN SUA PAN. HOLT EXPECTS TO APPLY FOR LICENSE IN PERSON IN THE NEXT TWO MONTHS IN BOTSWANA. HE TOLD OPIC HE ALSO HOPES TO NEGOTIATE A MINING CONCESSION BEFORE COMMENCING INVESTMENT IN A PILOT PLANT. THE PILOT PLANT CONSTRUCTION COULD BEGIN AS EARLY AS SPRING 1976 AND MAY COST UP TO THREE MILLION DOLLARS AND TAKE TWO YEARS TO COMPLETE. OPIC BELIEVES IT MAY BE UNREALISTIC FOR GULF TO EXPECT TO NEGOTIATE THE MINING ARRANGEMENT WITHIN A SHORT TIME; HOWEVER GULF WILL REQUIRE SOME CONCRETE ASSURANCE THAT (A) IT

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WILL BE ABLE TO UNDERTAKE MINING PROJECT FOLLOWING THE PILOT

OPERATION, AND (B) THAT IT CAN UNDERTAKE THE MINING PROJECT ON A REASONABLE BASIS. IT NEEDS THIS ASSURANCE BEFORE IT IS WILLING TO INVEST THE THREE MILLION DOLLARS IN BOTSWANA. THE PURPOSE OF THE PILOT OPERATION IS TO EVALUATE THE YIELDS AND SOIL STRUCTURE OF THE EVAPORATION POOL SYSTEM, SO THAT THE FULL SIZED PROJECT WILL BE PROPERLY DESIGNED. IN OTHER WORDS, THE PILOT PROJECT IS AN INTEGRAL PART OF THE DESIGN AND ENGINEERING OF THE ENTIRE PROJECT. ITS PURPOSE IS NOT TO DECIDE WHETHER OR NOT TO INVEST, BUT HOW. WOULD APPRECIATE EMBASSY EXPLORING WITH GAOLATHE AND TOUGH WAYS THAT GULF MIGHT ACCOMPLISH ITS OBJECTIVE AND ESTIMATES OF HOW LONG IT WILL TAKE TO NEGOTIATE THE MINING CONCESSION.

2. GULF EXPECTS TO FORM A CONSORTIUM OF INVESTORS INCLUDING A SOUTH AFRICAN COMPANY AND PROBABLY ANOTHER AMERICAN AND AUSTRALIAN COMPANIES WHICH ARE CONSUMERS OF SODA ASH. GULF WISHES TO RETAIN CONTROL OF THE MANAGEMENT AND WILL TAKE WHATEVER SHARE OF THE EQUITY IS NECESSARY TO MAINTAIN CONTROL. IT IS EXPLORING WITH OPIC THE FINANCING POSSIBILITIES FOR THE PROJECT. PROJECT WILL BE AT LEAST 500,000

TONS PER YEAR CAPACITY. THIS IS LARGER THAN BOTSWANA ORIGINALLY PROJECTED BUT GULF FEELS COMFORTABLE THAT A WORLD WIDE MARKET EXISTS FOR BOTSWANA SODA ASH.

3. GULF IS ALSO EXPLORING THE ALTERNATIVE OF DEVELOPING THE PROJECT IN TWO PARTS. A MINING COMPANY WOULD MANAGE THE EVAPORATION POOL SYSTEM AND A PROCESS COMPANY WOULD REFINES THE BRINE INTO SODA ASH AND MARKET IT. GULF FEELS THIS ARRANGEMENT WOULD FACILITATE FORMING A CONSORTIUM OF INVESTORS AND IN ARRANGING FINANCING OF THE PROJECT. HOWEVER, IT IS AWARE THAT THE DUAL COMPANY ARRANGEMENT MAY NOT BE DESIR BY GAOLATHE. APPARENTLY, THE MINERAL MINISTRY COULD NOT BE INVOLVED IN THE PROCESSING PLANT AND THERE WOULD BE A PROBLEM OF TRANSFER PRICE BETWEEN THE MINING AND PROCESSING PLANT. SECONDLY, THERE ARE APPARENTLY DIFFERENT TAX INCENTIVES FOR MINING AND PROCESSING PLANTS AND BOTSWANA MIGHT SEE THIS AS A WAY FOR GULF TO EVADE CERTAIN TAXES ON THE MINERAL OPERATIONS. GULF DOES NOT WANT TO DO THIS IF BOTSWANA OBJECTS. HOWEVER, IT HAS GOOD REASONS FOR LIMITED OFFICIAL USE

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EXPLORING THE POSSIBILITY. OPIC WOULD APPRECIATE EMBASSY DISCUSSING THIS FURTHER WITH TOUGH AND ADVISING OPIC AS TO HIS WILLINGNESS TO WORK WITH GULF TO DEVELOP A STRUCTURE THAT IS SATISFACTORY TO ALL PARTIES. IN ADDITION, WOULD APPRECIATE RECEIVING TAX AND INCENTIVE LEGISLATION GOVERNING PROCESSING AND MINING OPERATIONS. DECONTROL FOLLOWING 11/10/76. KISSINGER

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